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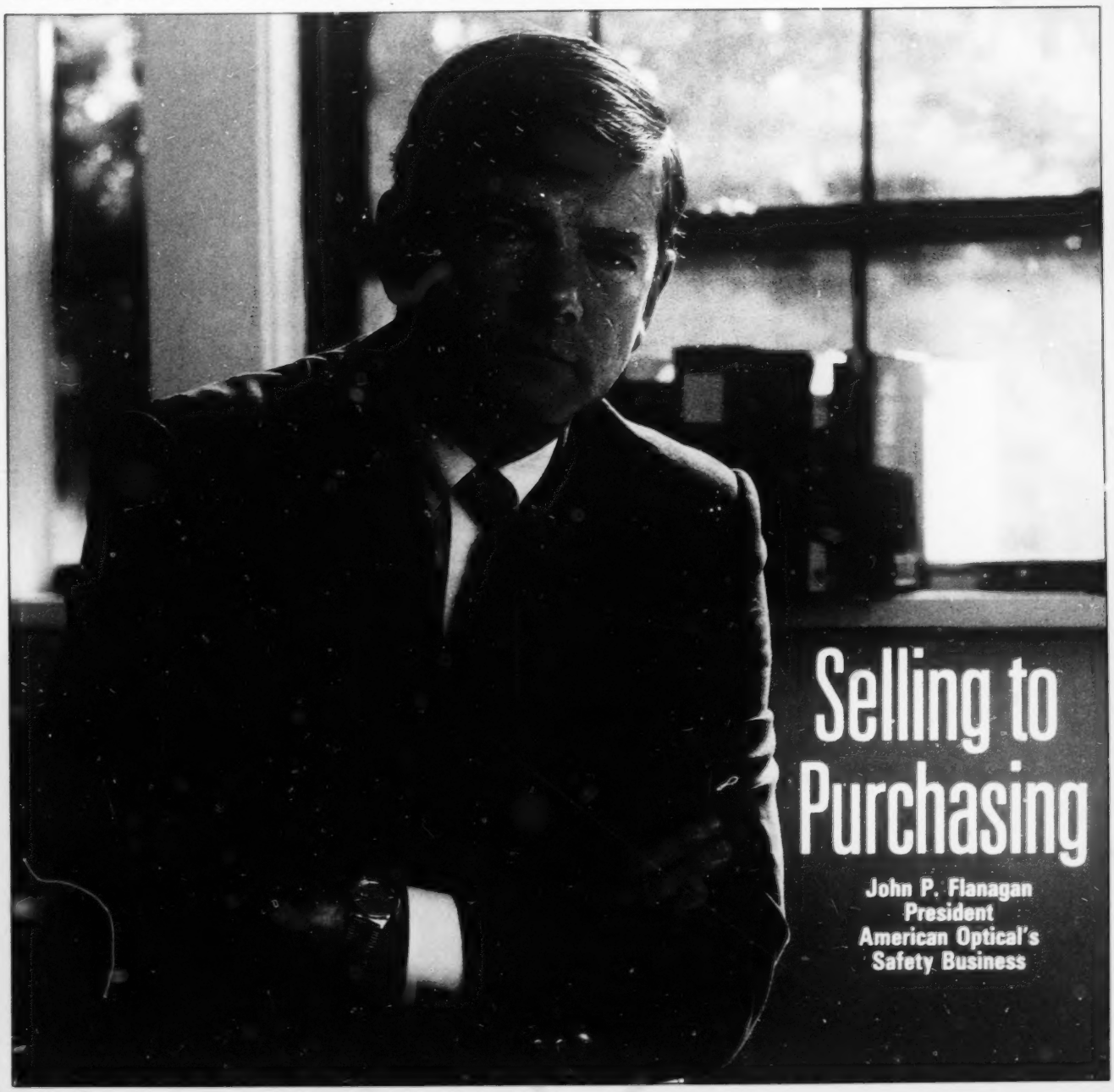
APRIL 1988
A CAHNERS PUBLICATION

# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

PARTNERS FOR PROFIT



## Selling to Purchasing

**John P. Flanagan**
**President**
**American Optical's**
**Safety Business**

# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 77, NO. 4 APRIL 1988 A CAHNERS PUBLICATION

John P. Flanagan, president of American Optical's Safety Business, explains how purchasing departments are changing.

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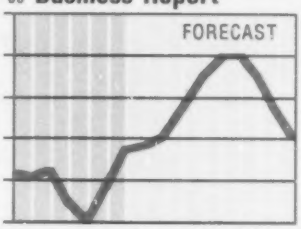


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**Industrial Distribution**® (ISSN 0019-8536) is published monthly by The Cahners Publishing Co., A Division of Reed Publishing USA, 275 Washington St., Newton, MA 02158-1630. Terrence M. McDermott, President; Ellsworth M. Brown, Jr., Group Vice President; Jerry D. Neth, Vice President/Publishing Operations; J.J. Walsh, Financial Vice President/Magazine Division; Thomas J. DeRosa, Vice President/Production and Manufacturing. Circulation records are maintained at Cahners Publishing Co., 44 Cook Street, Denver, CO 80206-5191. Telephone: (303)388-4510. Second-class postage paid at Denver, CO 80206-5191 and additional mailing offices. POSTMASTER: Send address corrections to INDUSTRIAL DISTRIBUTION® at the Denver address. INDUSTRIAL DISTRIBUTION® copyright 1988 by Reed Publishing USA. Saul Goldweitz, Chairman; Ronald G. Siegel, President & C.E.O.; Robert L. Krakoff, Executive Vice President; William M. Platt, Senior Vice President. Annual subscription rates for non-qualified individuals: USA, $55 per year; Canada and other countries, $75 per year for surface mail; $155 per year for air mail. Except for special issues where price changes are indicated, single copies of regular issues are available for $6.00. Please address all subscription mail to Kelly Albright, 44 Cook Street, Denver, CO 80206-5191.

**REPRINTS**: For quotes, contact Reprint Services, 1350 E. Touhy Ave., Des Plaines, IL 60018, (312) 635-8800.

# BUSINESS REPORT

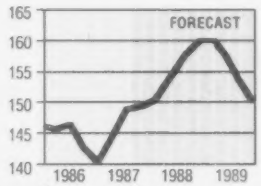
BY WILLIAM C. WOOD

# Economy maintains stability

*Inventory shifts in retail sector only*

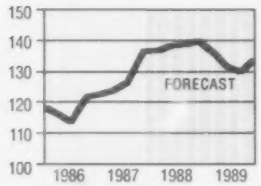
Business inventories rose about $60 billion (at an annual rate) in the fourth quarter of 1987, leading to speculation that a recession is imminent. A close look at the numbers, however, shows that the build-up has occurred almost entirely at the retail level. For an inventory recession to occur there would have to be an accumulation at all levels. And while the retail inventory/sales ratio has risen dramatically over the past year, the ratio for wholesalers has remained within acceptable bounds. Further, much of this retail accumulation has been in imported goods, so an inventory cutback will only slightly affect domestic production.

**NIDA/SIDA Sales Index**
(1977 = 100, SA)




**Data source:** NIDA
**Forecast source:** Cahners Economics

**ASMMA New Order Index**
(1977 = 100, SA)

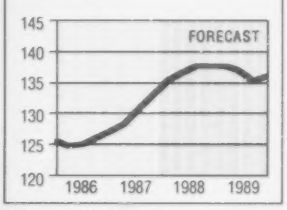



**Data source:** ASMMA
**Forecast source:** Cahners Economics

Housing starts is another area where the fearmongers have focused attention. First quarter starts have been averaging below 1.4 million, well below expectations. However, December through February are low volume months and are therefore susceptible to distortions. During the winter of 1986, starts averaged 1.94 million over the 3 months and finished the year at a 1.81 million average. Last winter, starts averaged 1.82 million over the winter and finished the year at 1.62 million. This year may see just the reverse with averages picking up later in the year.

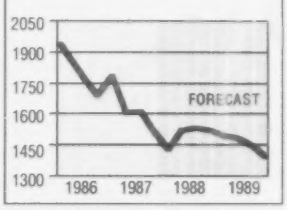
The results of the INDUSTRIAL DISTRIBUTION reader survey (shown below) indicate that total sales for distributors grew 6 to 12% in '87. These increases are consistent with data compiled by the Federal Reserve Board and various trade associations, and reflect current industrial expansion in the U.S. Based on results from this and previous surveys, the regions that consistently showed solid growth were New England, North Central, South Central, and Midwest. Although activity is expected to slow by year's end, nationwide sales will continue to expand, and all regions should have growth in '88. □

**Total Industrial Production**
(1977 = 100)



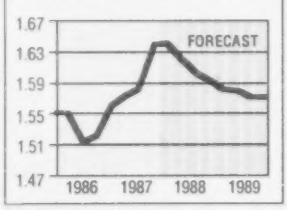

**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

**Total Housing Starts**
(Thousands of units, SAAR)



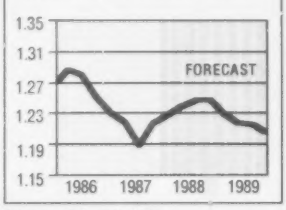

**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

**Retail Trade Inventory to Sales Ratio**




**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

**Wholesale Trade Inventory to Sales Ratio**




**Data source:** Commerce Dept
**Forecast source:** Cahners Economics

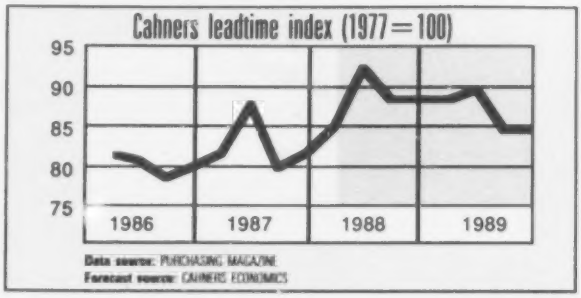
| SALES BY REGIONS (% change) | SALES (%) Year of '87 vs. Year of '86 | | | RECEIVABLES (# of days) Dec. '87 vs. Dec. 88 | | | | | | INVENTORIES | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gen. | Spec. | Comb. | Gen. | Spec. | Comb. | Gen. | Spec. | Comb. | Increase | Remain The Same | Decrease |
| **NEW ENGLAND** CT, RI, MA, NH, VT, ME | 6 | 13 | 4 | 39 | 42 | 40 | 37 | 40 | 40 | 33 | 50 | 17 |
| **MID-ADLANTIC** NY, NJ, PA | −2 | 23 | 10 | 40 | 42 | 46 | 43 | 40 | 53 | 42 | 46 | 12 |
| **SOUTHEAST** DE, DC, MD, VA, WV, GA, NC, SC, FL | 7 | 9 | 6 | 31 | 43 | 35 | 39 | 39 | 35 | 27 | 50 | 23 |
| **NORTH CENTRAL** OH, IL, IN, MI, WI | 4 | 5 | 18 | 43 | 44 | 46 | 43 | 45 | 35 | 36 | 50 | 14 |
| **SOUTH CENTRAL** AL, MS, KY, TN | 15 | 7 | 5 | — | 42 | 62 | — | 42 | 53 | 60 | 0 | 40 |
| **MIDWEST** MN, ND, DS, IA, NE, KS, MO | 8 | 14 | 16 | 39 | 43 | 39 | 44 | 43 | 41 | 50 | 50 | 0 |
| **SOUTHWEST** AR, LA, OK, TX | 14 | 4 | −3 | 40 | 53 | 45 | 40 | 37 | 47 | 30 | 62 | 8 |
| **MOUNTAIN** NM, AZ, CO, UT, NV, WY, MT, ID | 12 | 0 | −4 | 51 | 50 | 45 | 52 | 40 | 32 | 10 | 70 | 20 |
| **PACIFIC** CA, OR, WA | 18 | −4 | 11 | — | 47 | — | — | 44 | — | 45 | 37 | 18 |
| **U.S. TOTALS** | 10 | 12 | 6 | 44 | 44 | 41 | 44 | 42 | 41 | 35 | 50 | 15 |

# SUPPLY OUTLOOK

BY WILLIAM C. WOOD

# Supplies reflect expansion

*Improved controls to minimize leadtimes*




After an annual decrease of 5.4% in 1986, the Cahners Leadtime Index rose 3.0% in 1987. This increase mirrors the recovery in U.S. manufacturing that started in the process industries in early '87, and worked its way through to the OEM industries by the end of the year.

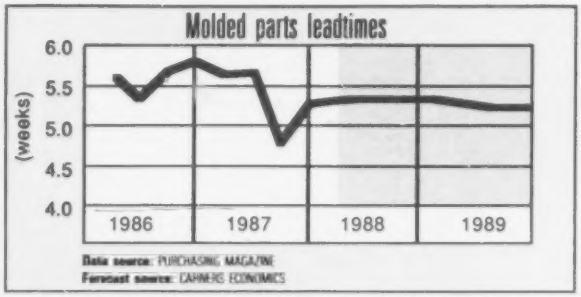
Although the expansion in the industrial sector may be slightly affected by the build-up of inventories reported in the 4Q87 GNP figures (see Business Report, this issue), it is expected to continue through the second quarter of '88. The second quarter is when leadtimes traditionally stretch out so they will peak in May or June.

It should be noted that, even at their peak, leadtimes will not be as long as they have been during previous expansions. Improved inventory and production controls, and the muted nature of this expansion, will keep leadtimes relatively short. The Cahners Leadtime Index will peak at 92-94, well below the base year figure (1977=100), and it is doubtful that it will ever reach 100 again.

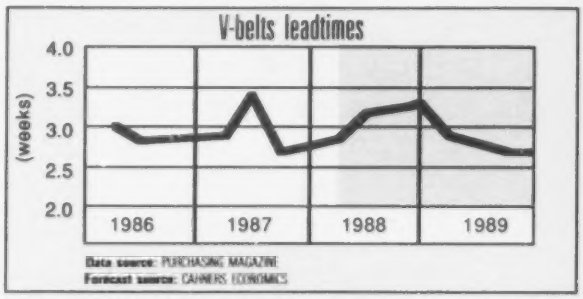
Just as should be expected when demand pressures cause leadtimes to lengthen and capacity utilization rates to increase, prices are also beginning to rise.

Construction materials and components rose 0.9%, which was somewhat more of an increase than had been experienced in recent months. This increase was mostly due to large increases in the price of nonferrous wire and cable and fabricated structural metal products.

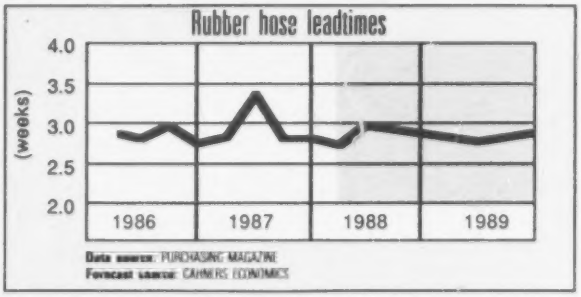
In the components for manufacturing category, increases were noted for aircraft parts, bearings and metal valves. Electronic component prices were lower than in the month before. Capital equipment prices rose 0.2% for the second consecutive month, with the largest increases occurring in construction machinery and office furniture. □



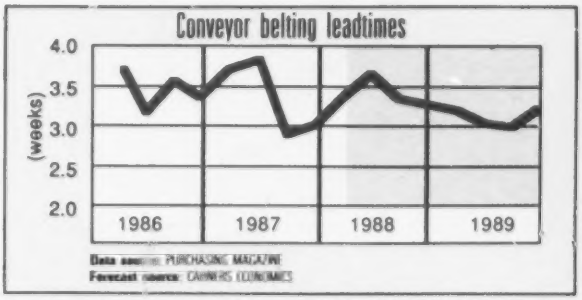

**Despite high levels of capacity utilization, leadtimes for molded plastic parts are expected to be very stable in '88.**




**Rubber V-belt leadtimes will rise above three weeks in the second quarter, and will stay there for the rest of the year.**




**Leadtimes for rubber hose are not expected to differ much from last year when they averaged just under three weeks.**




**Leadtimes for conveyor belting will rise slightly in the first half of '88 due to higher spending on machinery.**

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MAY 1988
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# Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

PREVIEW:

## 1988 Triple Industrial Supply Convention

INCOMING PRESIDENTS

James N. Mitchell ASMMA, left

Tom C. Reid SIDA, center

Daniel W. Judge NIDA, right

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# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

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Incoming presidents at the Triple: From left, ASSMA's James N. Mitchell, SIDA's Tom Reid and NIDA's Daniel Judge.


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ID lists all events and major activities at the Triple.

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As a sales manager, spend more time with your top achievers than with your marginal performers.

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Commitment needs to be evoked from people rather than instilled in them, says this consulting pro.

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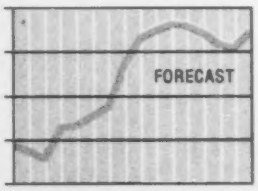


Industrial strength continues to build; bullish performance likely throughout the year.

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# Industrial Distribution

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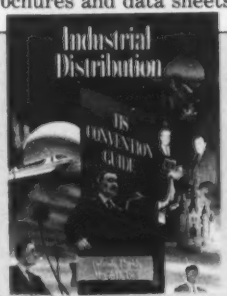



In Orlando, be sure to get your copy of ID's *Convention Guide*.

# ROI: BUY WISE— SELL SMART

*If your distributorship is not as profitable as it should be, then you're probably not a high performance manager. Here are some suggestions for getting your business into shape.*

**By John G.F. Bonnanzio, Associate Editor**

Return on investment (ROI) has been dropping for industrial distributors for the last several years. Although 1987 figures are not in, there's little reason to suspect that the 2-year decline will be reversed.

According to the "1987 Distributor Productivity Report" (DPR) prepared by both the National and Southern Industrial Distributors Assns., ROI has not been above 10% since 1981. The recommended goal is 15%; 1986 closed out at 6.4%.

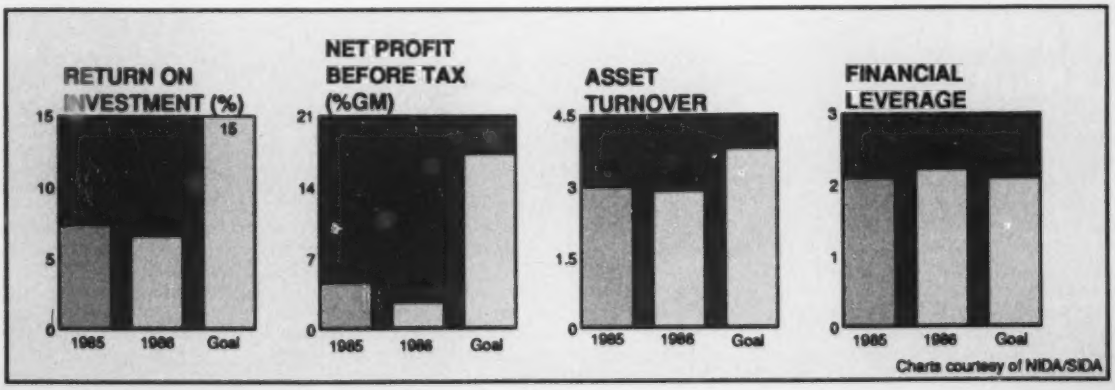
There are many factors influencing ROI (which is defined as after-tax profits as a percent of net worth), although three "broad" elements are most important.

1. Net profit as a percent of gross margin (NBT);
2. Asset turnover;
3. Financial leverage.

'Gross profits aren't worth a damn. They're superficial to me.'

In 1986 to 1985 comparisons, all of these measures failed to improve. In effect, DPR figures show distributors borrowing more from outside sources, rather than drawing on their own capital to finance growth. As will be demonstrated later, this is not a productive means of improving ROI.

Although some numbers drawn from ID's own Survey of Distributor Operations differ mildly from those in the DPR, trend lines all point in the same general direction: downwards. In the broadest measure of



Charts courtesy of NIDA/SIDA

all, which is sales, the DPR indicated that sales growth for 1986 was 0.2% while ID factored in inflation and marked down its number (in red) at -4.0%. Having adjusted sales with an inflation rate of only 3.25%, such a lackluster performance can only mean that distributors need to plug some holes in their operations.

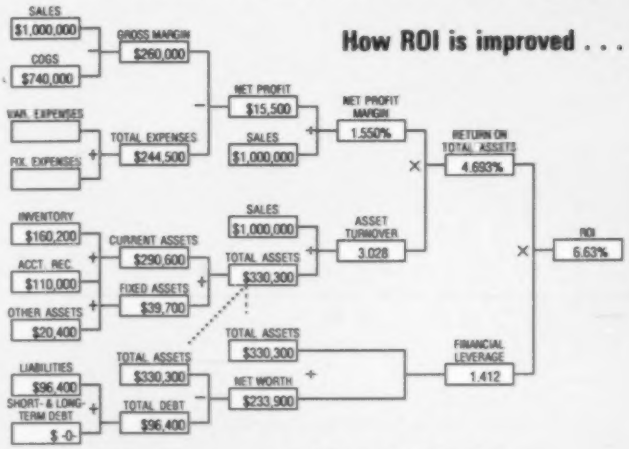
**'In today's non-inflationary environment, we have to do better handling costs.'**

"If you want to know what dragged on ROI in'86," says Jim Leas of Distributor Productivity Reports Inc., "just take a look at net profits before tax (NBT)." As a contributing author of the association-sponsored report, Leas has firsthand knowledge of where low performance distributors are having problems and where the high performers excel. The underlying message, he says, is this: to obtain a higher before-tax ROI (BTROI), NBT as a percent of gross margin must be improved. "This can only be accomplished," finds the report, "by lowering operating and interest expense and/or increased gross margin dollars."

In 1986, distributors also failed to improve on asset turnover. This measure, which should not be confused with inventory turnover or stock turns (which did improve), measures a company's LIFO reserves and total average assets compared to its overall sales. This figure is important because the more a company can increase sales from its asset base, the greater its profitability. According to the DPR, this ratio fell from 3.0 in 1985 to 2.9 in 1986. Assuming that ID figures are correct, there is probably one reason for this slight drop, and that would be declining sales. In order to push asset turnover ratios downward, ultimately one of two scenarios must occur. First, total assets (including inventory and accounts receivables) must rise faster than sales or, second, a decline in sales must be greater than a drop in assets.

Based on figures from ID's survey, declining sales were at fault for lower asset turnover. Average monthly inventories for general line distributors fell 5.3% from 1985 to 1986, as did the year-end value of receivables and the number of days outstanding for collections. In light of these improvements (although relatively slight), and the subsequent decline in sales, asset turnover continued its two-year decline.

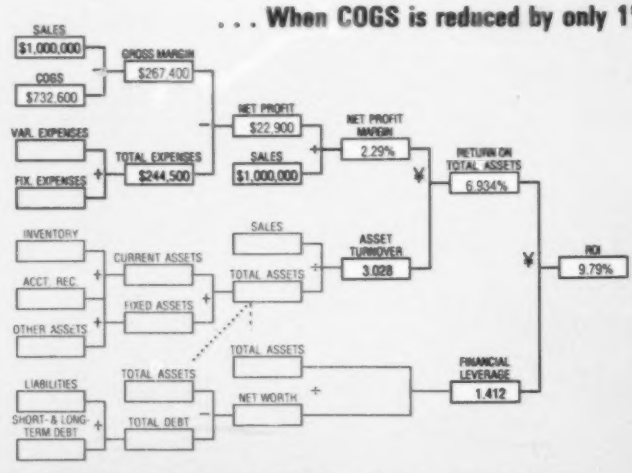
## Financial model of an industrial distributor



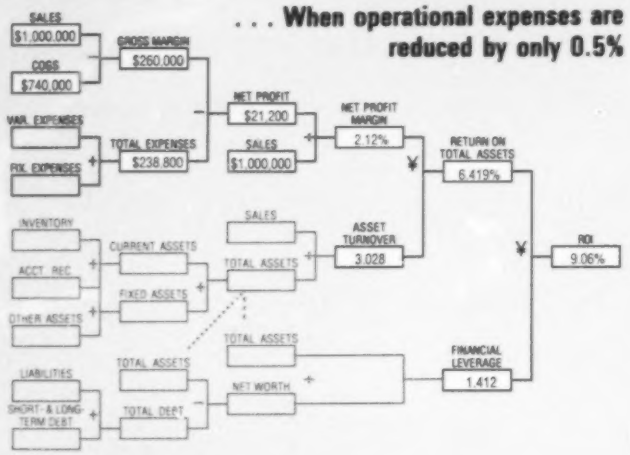

Model 1. **Changes to a company's balance sheet are best measured in terms of ROI.**

The third major factor affecting ROI is the measure of a company's financial leverage. Financial leverage is the ratio of a company's total assets to its net worth (*see* ***Model 6***). A higher figure often indicates the use of more debt financing. Conversely, a lower number suggests greater outside financing. One means of improving BTROI is increasing leverage. The DPR found that it would take a leverage of 7.8 for the typical distributor to bring BTROI up to recommended goals. The average distributor has financial leverage of 2.2.

In addressing the issue of borrowing, the report advises that distributors not borrow at a rate in excess of their total return on assets (TROA). This is important because it indicates how much is earned on that which is invested in assets. It also measures a business' ability to earn a profit without regard to the interest it pays. Interestingly, only 28% of study participants had a TROA in excess of the average prime rate of 8.5%. However, the study strongly advises that "firms should not borrow at a rate in excess of their TROA, since they cannot earn a rate of return equal to the rate at which they borrow these funds." Greater financial leverage is valuable to a company, but not too




Model 2. **When the cost of goods and services is reduced, ROI improves most dramatically.**




Model 3. **Even a minimal reduction in expenses leads to vastly enhanced profits.**

much. The report goes on to say that in spite of this, 100% of the distributors in the survey borrowed money and, again, only 28% could squeeze a profit from these borrowings.

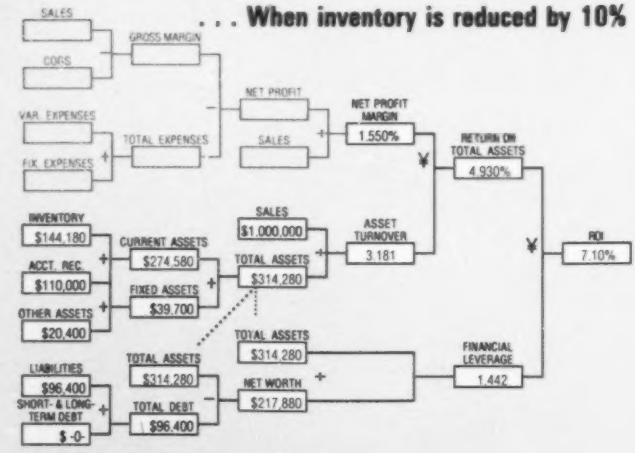
ROI generates additional profit for either dividends or internal expansion. Without a strong ROI, banks are not as likely to loan money and investors would be hesitant to buy equity. As ROI measures management's ability to create profit on investment, a distributor cannot afford to treat the number as an abstract accounting figure.

The purpose of these models is to demonstrate how various forces impact a distributor's ROI. By examining each of the six, it quickly becomes obvious as to which measures a distributor should employ to effect changes in ROI. Since some goals would be easier to achieve than others, however, the real value of this exercise is to demonstrate where it makes the most sense to concentrate your efforts to improve ROI.

While these models are not meant to mirror a typical distributor, every attempt has been made to approximate the financial profile of a business with an ROI of around 6%. As every industrial distributor is distinct as to product lines, geography and markets served, your company's numbers are likely to differ. Because of this and the fact that accounting measures and taxes also differ widely, variable and fixed expenses have been intentionally left blank. Total expenses, which are most critical numbers, have been provided.

First, an explanation of ***Model 1***. In this example, $1 million in sales was chosen for ease in estimating margins and percentages. The Cost of Goods and Services (COGS) were also approximated to $740,000. On the asset side, total assets were rounded to roughly one-third of sales, or $330,300. Financial leverage is determined by dividing total assets ($330,300) by net worth. When total assets are divided by net worth ($233,900), the resulting financial leverage is 1.412. Return on total assets (2.210%), multiplied by asset turnover (3.028), multiplied by financial leverage (1.412) resulted in 3.12% ROI.

Should you study only one of these six models, take a careful look at ***Model 2***. More than anything else, the cost of goods and services has the greatest potential impact for improving ROI. As demonstrated, when COGS is reduced a mere 1%, net profits soar from $15,500 to $22,900. Further, ROI is improved by 30%, in this case increasing to 9.79%.

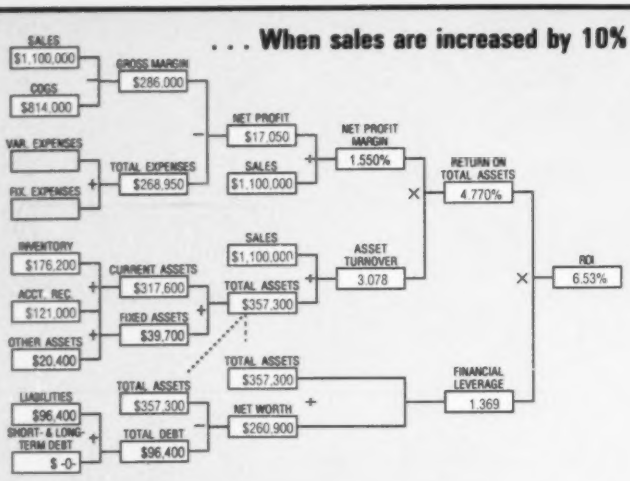



Model 4. **Particularly when inventory is financed, overly stocked shelves drag on earnings performance.**

**'We put our outside salesmen into profit centers. So we charged them six bucks for every calendar we gave them.'**

Decreasing COGS by 1% is a lot easier said than done, although this information helps direct distributors' attention. Better profit margins can come from improving on product mix, as well as enhancing marketing of your most profitable lines. Other efforts should include concentrating sales efforts on your most profitable customers. "If I knew what the net profit dollars were on every sell that I made in this company," says Joe Misiura of SMS Supply Co., "I would know where to drive products and where to back away from them." Such information, adds the president and CEO of the Chicago-based company, would help in "telling the salesmen where not to push, where to push, where not to pay them, and where to pay."

Before the advent of the computer, making such sales determinations was a virtual impossibility. In fact, if your business is not computerized, it's probably an idea you should forget. But most distributors are computerized, and software can be written to help with such time-consuming determinations.




Model 5. **Higher sales do not translate into higher profits when COGS and expenses are not kept in check.**

In ***Model 3***, the effects of reducing total expenses by 0.5% are shown. Here, too, the result is remarkable. Net profit jumps to $21,200, net profit margins increase to 2.12% and ROI is pushed up to 9.06%. For the high performance manager, there are several ways to decrease expenses without cutting payroll, the most obvious solution. First, examine the cost of deliveries. Many distributors charge for such services; perhaps minimum order charges should be considered. Second, take a hard look at order filling. Again, a number of software programs have the ability to determine picking order. An evaluation of warehouse layout and work patterns may also be needed.

'When you go to sell an item in December, you don't look at what you paid in January.'

Much thought is given to the need for eliminating excess inventory. As ***Model 4*** demonstrates, the net effect of decreasing shelf items a hefty 10% has a limited impact on ROI. However, when a company's debt is high, reduced inventory does enhance ROI. With inventory carrying costs moving perpetually higher and more distributors financing inventory through borrowing, businesses should make every attempt to identify slow moving items. Slow movers are not necessarily low margin items, so long as the proper markup finds its way to the invoice. Other approaches to keeping inventory from needlessly rising, suggests NIDA, are to reduce duplicate items and reexamine costs and profit contributions from broken package sales.

Joe Misiura of SMS Supply Co. approaches inventory from this perspective: "If inventory costs us 24% [when] being managed very well, then somewhere along the line you have to start charging the inventory to carrying costs. It's the only way you can really get a handle on your ROI."

While many distributors think the best way to increase ROI is through increased sales, ***Model 5*** should help dispel this myth. More precisely, although higher sales can help ROI, higher sales also mean correspondingly higher sales costs (total expenses), higher inventory levels and higher receivables. Increasing sales volume without improvement to COGS, inventory or liabilities will do little to improve ROI. Everything has its cost, and improving ROI through sales is apparently a very expensive approach.

The final schematic, ***Model 6***, shows the effects of borrowing on ROI. As mentioned earlier, when debt exceeds total return on assets, problems occur. However, a limited amount of debt can improve both financial leverage and ROI. But here, too, the results are unimpressive. Financing growth (that is, increasing sales through use of short- or long-term debt) without tightening expenses and managerial control over COGS will have minimal impact on ROI.

For the distributor left bewildered by this avalanche of percentages and numbers, the lessons to heed can be summarized simply:

1. Excessive payroll is the largest cause of poor profits;
2. Don't depend on increased sales to solve a profit problem;
3. Increase gross margin dollars by keeping non-payroll and interest expenses in check;
4. Decrease the funds invested in receivables, inventory and fixed assets. Be sure to buy wise and sell smart. The effect of this effort will be a lowering of interest expense and an increase to gross margin return.

Distribution will always be a people business. Whatever you attempt to accomplish, be mindful of your customers and employees, as both will affect your profits. □

Model 6. **Sales growth should not be pursued through debt when total return on assets exceeds total debt.**

# BUSINESS REPORT

# Industrial strength building

*Cahners forecasts 5.3% growth in industrial output*

For the past year and a half, Cahners Economics has been predicting that U.S. industry will carry the economic recovery forward in 1988. While the Cahners forecast for real GNP growth of 2.8% is somewhere in the middle of the forecasters' pack, their forecast for a 5.3% increase in industrial output in 1988 is most optimistic.

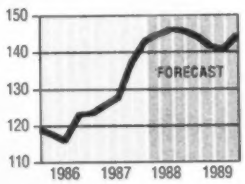
Cahners believes that a good industrial performance is likely this year for two reasons. First, renewed profit growth last year will result in increased purchases of equipment in 1988. Durable equipment purchases will peak this year at a level that is 65% higher than the level of spending in early 1983 when the current economic recovery began. Also, domestic industry will benefit from larger export markets because of the dollar devaluation.

High-tech industries (which include all electronics industries, synthetic materials and drugs) have fared better over the past few years than the smokestack industries (autos, mining, metals, and heavy equipment), and will continue to do so through 1988. Technology-driven industries have become the growth markets for U.S. manufacturers. High value-added products will have the biggest gains.

This difference between the high-tech and smokestack industries will not change substantially in the next few years; however, U.S. industrial demand is changing in other ways. In '85 and '86, defense and space drove industrial growth while output of business equipment and consumer durables was sluggish. In '87, a year of transition, growth in these three sectors was about the same—between 3.6 and 3.9%.

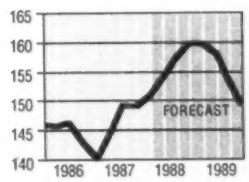
In '88 the scenario changes. Business equipment production will jump approximately 7%. Consumer durables output will be tempered by a slowdown in consumer spending and will grow a moderate 2.5%.□

**ASMMA New Order Index**
(1977 = 100, SA)



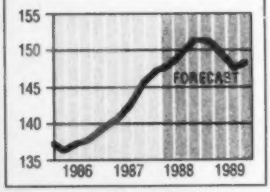

**Data source:** ASMMA
**Forecast source:** Cahners Economics

**NIDA/SIDA Sales Index**
(1977 = 100, SA)



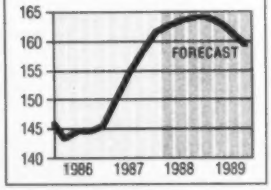

**Data source:** NIDA
**Forecast source:** Cahners Economics

**OEM Industries**
**Industrial Production Index**



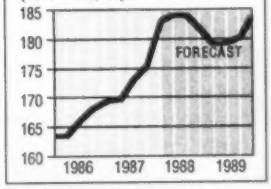

**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

**Machinery Except Electrical**
**Industrial Production**



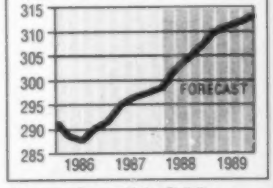

**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

**Electrical Machinery**
**Industrial Production SIC 36**
(1977 = 100, SA)




**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

**Producer Price Index**
**Finished Goods**
(1967 = 100, Unadj.)




**Data source:** Bureau of Labor Statistics
**Forecast source:** Cahners Economics

| SALES BY REGIONS (% change) | SALES (%) Year of '88 vs. Year of '87 | | | RECEIVABLES (# of days) Jan. '88 vs. Jan. 87 | | | | | | INVENTORIES | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gen. | Spec. | Comb. | Gen. | Spec. | Comb. | Gen. | Spec. | Comb. | Inc. | Remain The Same | Dec. |
| **NEW ENGLAND** CT, RI, MA, NH, VT, ME | N/A | 0 | N/A | N/A | 38 | 45 | N/A | 40 | 45 | 20 | 80 | 0 |
| **MID-ADLANTIC** NY, NJ, PA | −3 | −8 | −29 | 47 | 48 | 72 | 42 | 55 | 52 | 26 | 52 | 22 |
| **SOUTHEAST** DE, DC, MD, VA, WV, GA, NC, SC, FL | −8 | 19 | 0 | 37 | 43 | 39 | 43 | 43 | 38 | 20 | 60 | 20 |
| **NORTH CENTRAL** OH, IL, IN, MI, WI | 1 | 16 | 13 | 38 | 44 | 44 | 39 | 44 | 42 | 29 | 50 | 21 |
| **SOUTH CENTRAL** AL, MS, KY, TN | 20 | 30 | 15 | 30 | 44 | 25 | 40 | 48 | 25 | 55 | 36 | 9 |
| **MIDWEST** MN, ND, DS, IA, NE, KS, MO | −8 | −22 | −14 | 38 | 44 | 30 | 41 | 42 | 45 | 27 | 64 | 9 |
| **SOUTHWEST** AR, LA, OK, TX | 1 | 16 | N/A | 32 | 43 | N/A | 38 | 40 | N/A | 28 | 36 | 36 |
| **MOUNTAIN** NM, AZ, CO, UT, NV, WY, MT, ID | −17 | 19 | −44 | 48 | 43 | 45 | 44 | 52 | 45 | 14 | 57 | 29 |
| **PACIFIC** CA, OR, WA | 28 | −42 | 13 | 47 | 51 | 46 | 47 | 54 | 45 | 35 | 35 | 30 |
| **U.S. TOTALS** | −5 | −17 | −3 | 42 | 45 | 42 | 42 | 47 | 40 | 30 | 50 | 20 |

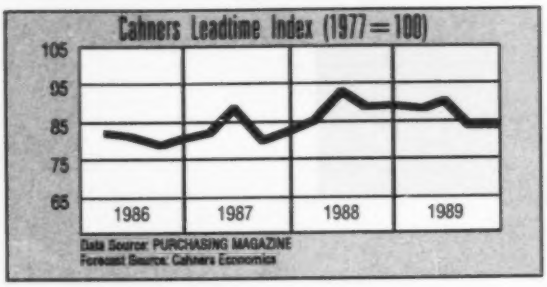
# SUPPLY OUTLOOK

BY WILLIAM C. WOOD

# Greenspan monitoring leadtimes

*Strong chance of expansion continuing another year*

Federal Reserve Board Chairman Alan Greenspan recently told Congress' Joint Economic Committee that he focused on "leadtimes in the deliveries of production materials" as an early indicator of inflationary pressures. He warned that the economy could be getting closer to higher general inflation, but that business and labor "still seem to be exercising a considerable degree of restraint in their price- and wage-setting behavior."

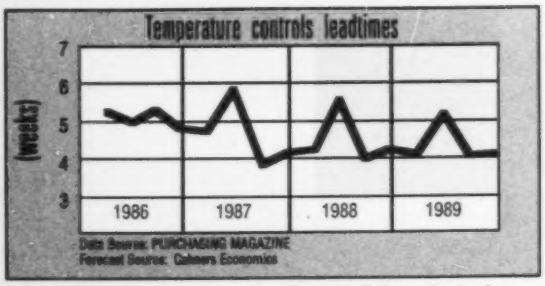



Greenspan pointed out that the build-up in inventories that occurred in the fourth quarter of '87 is not resulting in cutbacks in production. He also added that deep cutbacks now appeared unlikely. "Consumer spending seems to be holding its own, export prospects remain favorable and capital goods orders have been strong. Overall, the chances appear relatively good for maintaining the current expansion through another year," said Greenspan.

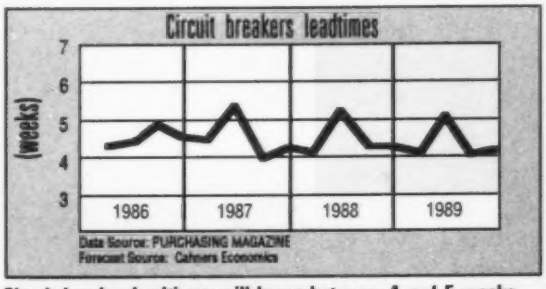
The Cahners Leadtime Index fell 1.7% in March to 85.6. Longer leadtimes were reported for chemicals, rubber and plastic products, motors, and electronic parts. There was no change in the leads for machine tools, machinery components and paper.

For the first quarter, the index was 4.6% higher than in the fourth quarter of '87 and was 4.4% higher than the first quarter '87 level. The index is projected to peak at a level of 92 during the second quarter. This peak will be considerably lower than the past peaks of 105.6 in February 1984 and 136.9 in February 1979.

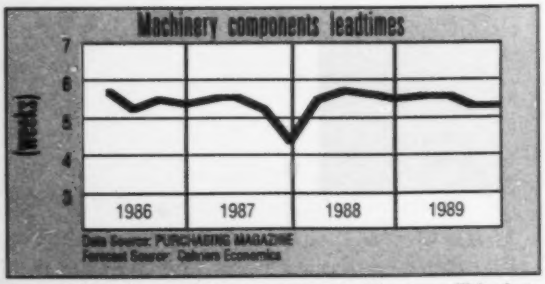
The Producer Price Index for finished goods was down 0.2% in February. Prices for most industrial goods changed very little. Increases in price were reported for electric motors and generators, plumbing products, and furnace and refrigeration equipment. Declines took place for motor vehicle parts, abrasive products and industrial chemicals. □



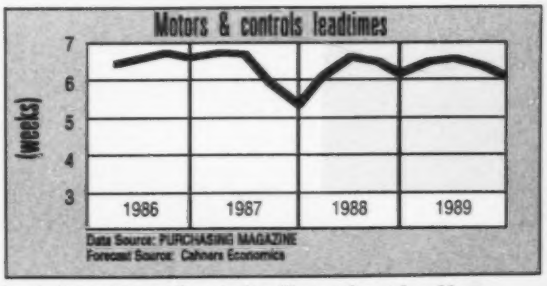

**Leads for temperature controls will reach 5.5 weeks in the second quarter.**




**Circuit breaker leadtimes will hover between 4 and 5 weeks, showing little change from last year.**

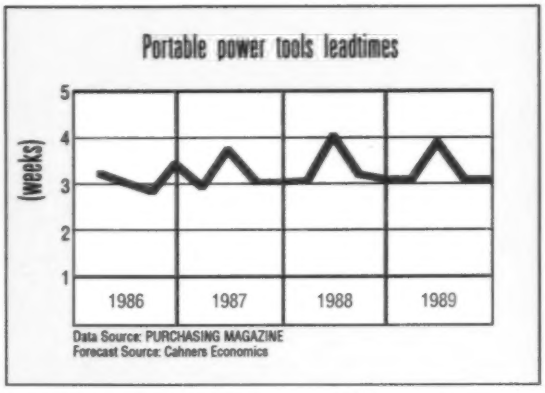



**Average leads for machinery components this year will be just over 5.5 weeks.**

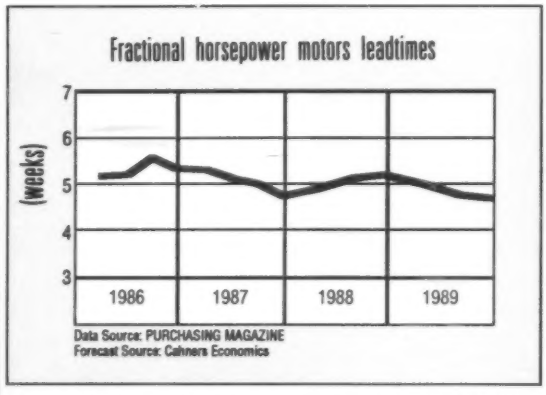



**Leads for motors and controls will stretch out in mid-year.**

# SUPPLY OUTLOOK




**Portable power tool leads will average 5% longer this year than in '87.**




**Demand for fractional horsepower motors will push leadtimes over 5 weeks in the second quarter.**

## Strong demand for electrical machinery/components

Although markets for machinery and advanced products have not expanded as rapidly as the markets for primary processors, the growth in production for these goods has been steady. Manufacturers of electrical machinery and electrical components have been recapturing domestic market share, and exports are improving. Capacity utilization in the electrical machinery industry was 76.6% in January and will peak in the third quarter. In '88, output of electrical and non-electrical machinery will expand between 6 and 7%.

**Industrial Distribution®**, (ISSN 0019-8153) is published monthly by The Cahners Publishing Co., A Division of Reed Publishing USA, 275 Washington St., Newton, MA 02158-1630. Terrence M. McDermott, President; Ellsworth M. Brown, Jr., Group Vice President; Jerry D. Neth, Vice President/Publishing Operations; J.J. Walsh, Financial Vice President/Magazine Division; Thomas J. Dellamaria, Vice President/Production and Manufacturing. Circulation records are maintained at Cahners Publishing Co., 44 Cook Street, Denver, CO 80206-5191. Telephone (303)388-4511. Second-class postage paid at Denver, CO 80206-5191 and additional mailing offices. POSTMASTER: Send address corrections to INDUSTRIAL DISTRIBUTION® at the Denver address. INDUSTRIAL DISTRIBUTION® copyright 1988 by Reed Publishing USA. Saul Goldwetz, Chairman; Ronald G. Segal, President/C.E.O.; Robert L. Krakoff, Executive Vice President; William M. Platt, Senior Vice President. Annual subscription rates for non-qualified individuals: USA, $55 per year; Canada and other countries, $75 per year for surface mail; $155 per year for air mail. Except for special issues where price changes are indicated, single copies of regular issues are available for $6.00. Please address all subscription mail to Kelly Albright, 44 Cook Street, Denver, CO 80206-5191.

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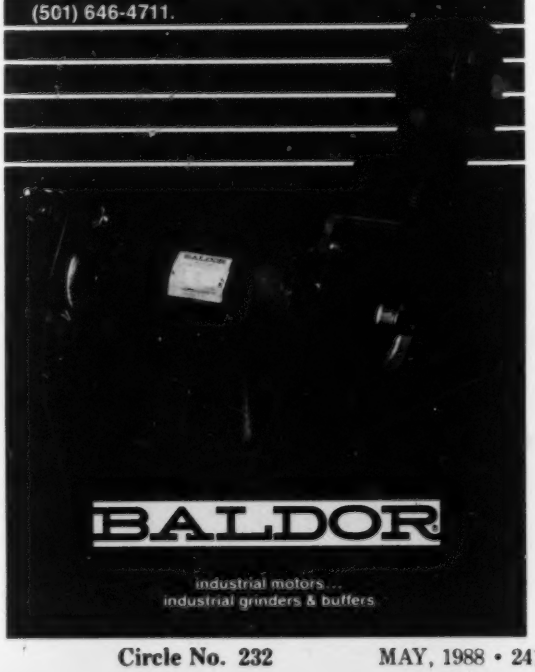

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